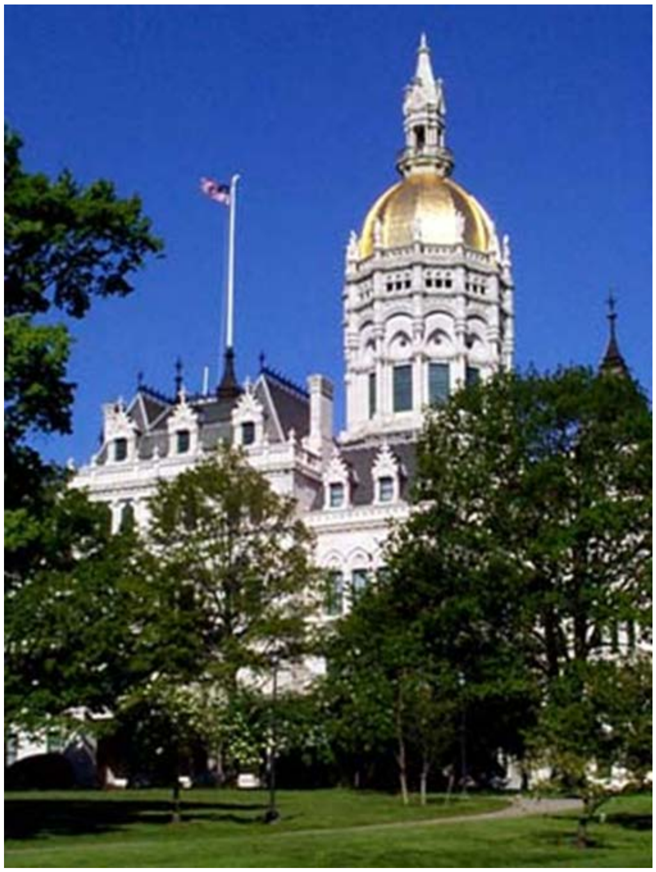
STATE OF CONNECTICUT



AUDITORS' REPORT
OFFICE OF THE SECRETARY OF THE STATE
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2018

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

Table Of Contents

November 27, 2019

EXECUTIVE SUMMARY

In accordance with the provisions of Section 2-90 of the Connecticut General Statutes we have audited certain operations of the Office of the Secretary of the State. The objectives of this review were to evaluate the office's internal controls, compliance with policies and procedures, as well as certain legal provisions, and management practices and operations for the fiscal years ended June 30, 2017 and 2018.

The key findings are presented below:

Page 6	We noted inadequacies in the accounting and reporting of accounts receivable related to fees imposed on unregistered out of state businesses. We also found that the office has not identified uncollectible receivables. The Office of the Secretary of the State should improve its accounts receivable recordkeeping to ensure that records are accurate, complete, and maintained in a manner to indicate how long receivables were outstanding. (Recommendation 1.)
Page 8	We noted untimely deposits and posting of receipts, along with a lack of reconciliations between the cash receipts journal and the state's accounting system. Our review also found deficiencies in the accounting and reporting of unearned revenue. The Office of the Secretary of the State should strengthen internal controls over receipts and should implement procedures to comply with the General Statutes. The office should also seek guidance from the Office of Policy and Management concerning stale customer account balances. (Recommendation 2.)
Page 12	We disclosed numerous exceptions indicating the office improperly maintained inventory records. The Office of the Secretary of the State should develop and maintain property records in accordance with the State Property Control Manual. The office should perform a complete physical inventory with supporting documentation, and implement effective controls over the recordkeeping of scrapped equipment. (Recommendation 4.)
Page 13	We disclosed that inventory records of merchandise for sale contained significant errors and instances of missing sales documentation. The Office of the Secretary of State should ensure that inventory records of merchandise for sale are accurate, complete and in compliance with the State Property Control Manual. (Recommendation 5.)

STATE OF CONNECTICUT

AUDITORS OF PUBLIC ACCOUNTS

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ROBERT J. KANE

November 27, 2019

AUDITORS' REPORT

We have audited certain operations of the Office of the Secretary of the State in fulfillment of our duties under Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2017 and 2018. The objectives of our audit were to:

1. Evaluate the office's internal controls over significant management and financial functions;
2. Evaluate the office's compliance with policies and procedures internal to the office or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the office, and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the office's management and the state's information systems, and was not subjected to the procedures applied in our audit of the office. For the areas audited, we identified:

1. Deficiencies in internal controls;

2. Apparent noncompliance with policies and procedures or legal provisions; and

3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Office of the Secretary of the State.

COMMENTS

FOREWORD

The Secretary of the State is an elected constitutional state officer whose duties are set forth in Title 3, Chapter 33, of the Connecticut General Statutes. The Secretary of the State serves as the chief election and business registrar, and is the official keeper of public records and documents. Denise W. Merrill served as the Secretary of the State during the audited period and James F. Spallone served as Deputy Secretary of the State until January 2017. Scott Bates was appointed as Deputy Secretary of the State in January 2017.

The primary functions of the Secretary of the State are:

- Custodian of the state seal, public records and documents, particularly of the acts, resolutions and orders of the General Assembly. Other public documents recorded and filed include state agency regulations, schedules of state board and commission meetings, town ordinances and the surety bonds of state officers and employees.

- Commissioner of Elections of the state, which includes being the repository of political party rules and campaign finance statements and compiling voter registration statistics.

- Recording various corporate certifications and reports as well as the collection of the appropriate fees.

- Recording commercial transactions and collecting applicable fees in accordance with the Uniform Commercial Code (UCC).

- Appointments of Notaries' Public.

- Publishing the State Register and Manual and other publications.

The Office of the Secretary of the State is organized into 5 divisions: Business Services, Legislation Elections and Administration, Information Technology, Management and Support Services and Publication.

Significant Legislation

- Public Act 16-97, effective July 1, 2017, changed the laws governing limited liability companies (LLCs). It included provisions that apply to domestic LLCs (formed under Connecticut law), and foreign LLCs (formed under another jurisdiction's law) registered to do business in Connecticut. Among its provisions, the act made changes governing mergers between domestic and foreign LLCs, established new filing fees for documents filed with the Secretary of the State, and altered the due dates for annual reports required by domestic and foreign LLCs.

  The act also required the Secretary of the State to make any required changes to the CONCORD commercial records database to satisfy the act's provisions within available appropriations. This includes the reprogramming or upgrading of the database and additional or upgraded software purchases. The database compiles records that business entities file with the Secretary of the State.

- Public Act 17-108, section 43, required the Secretary of the State to report to the Judiciary Committee, by January 1, 2018, on potential funding sources to modify, update, or replace, the CONCORD commercial records database to promote and enhance the implementation of business-friendly initiatives.

RÉSUMÉ OF OPERATIONS

Revenues

General Fund revenues for the Office of the Secretary of the State, by revenue account, for the fiscal years under review and the preceding fiscal year are presented below:

	2015-2016	2016-2017	2017-2018
Commercial Recording	$ 25,526,882	$ 27,661,955	$ 27,865,594
State Board of Accountancy	2,777,140	1,200	1,520
Certificate Fees	1,019,825	1,023,044	999,215
Penalties - Corp	934,618	839,211	1,303,410
Notary Registrations	763,960	759,451	745,106
Service Fees	267,815	286,401	195,080
Franchise Taxes	164,750	11,482	10,212
Sales of Documents & Publications	83,082	83,468	104,762
Other Receipts	75,127	46,601	46,257
Refund of Receipts	(538,722)	(635,556)	(632,767)
Total Revenue by Category	$ 31,074,477	$ 30,077,258	$ 30,638,388

Receipts consisted primarily of business filing fees and penalties collected by the Division of Business Services. The decrease in revenues from the 2015-2016 fiscal year to the 2016-2017 fiscal year is predominately attributed to the transfer of the State Board of Accountancy from the Office of the Secretary of the State to the Department of Consumer Protection, effective July 1, 2016. Other revenue fluctuations were considered reasonable as revenue depends on the number of new and existing businesses operating in the state.

Expenditures

Expenditures by fund for the Office of the Secretary of the State for the fiscal years under review and the preceding fiscal year are presented below:

	2015-2016	2016-2017	2017-2018
General Fund	$ 9,701,475	$ 8,909,845	$ 8,107,967
Capital Improvements & Other Purpose Funds	1,264,918	2,087,103	209,281
Capital Equipment Fund	58,846	12,986	14,456
Total Expenditures Listed by Fund	$ 11,025,239	$ 11,009,935	$ 8,331,704

The decrease in General Fund expenditures from fiscal year 2015-2016 to fiscal year 2017-2018 is predominately attributed to the transfer of the State Board of Accountancy from the Office of the Secretary of the State to the Department of Consumer Protection. Computer system upgrades in fiscal year 2016-2017 led to fluctuations in expenditures from the Capital Improvement and Other Purpose Funds.

General Fund Expenditures

General Fund expenditures for the Office of the Secretary of the State, by expenditure account, are presented below:

	2015-2016	2016-2017	2017-2018
Personal Services & Employee Benefits	$ 6,263,766	$ 5,374,296	$ 4,924,438
Employee Expenses, allowance and Fees	45,065	34,048	30,146
Purchased & Contracts Services	693,435	904,497	442,356
Motor Vehicles Cost	10,462	11,510	12,814
Premises and Property Expenses	39,160	13,326	11,683
Information Technology	2,468,873	2,380,804	3,251,890
Purchased Commodities	157,241	173,987	118,651
Equipment	23,473	17,378	(684,010)
Total General Fund Expenditures by Account	$ 9,701,475	$ 8,909,845	$ 8,107,967

General Fund expenditures primarily consisted of personal services and information technology expenses. Personal services expenditures decreased by 21% from the 2015-2016 fiscal year to the 2017-2018 fiscal year due to service retirements and staff turnover. The information technology expenses primarily related to the maintenance of system databases such as CONCORD for business filings and the Election Management System.

Capital Improvement and Other Purpose Fund Expenditures

Capital Improvements and Other Purpose Fund expenditures increased by 65% between the 2015-2016 and 2016-2017 fiscal years and decreased by 90% between the 2016-2017 and 2017-2018 fiscal years primarily from hardware maintenance for 600 ballot marking systems dispatched to towns in the 2016-2017 fiscal year. In addition, the office purchased computer peripherals and supplies during the 2015-2016 and 2016-2017 fiscal years for the Elections Division.

Other Examinations

The Connecticut Citizenship Fund was established as a foundation, pursuant to Section 4-37e of the General Statutes. This organization was created to increase citizen interest and participation in government, particularly state and local government; increase and improve citizen participation in elections; stimulate more education and involvement of Connecticut's school-aged children concerning government; and engage in any lawful act or activity for which corporations may be formed under said act.

The financial records were subject to an audit by independent public accountants every 3 years per state statute. The last audit performed was for the 2013-2014 fiscal year and, per the auditor's opinion, the financial statements were presented fairly in accordance with Generally Accepted Accounting Principles. At the time of our review, an audit covering the fiscal year 2016-2017 had not been completed due to the fund's minimal resources. The fund balance was only $838 as of June 30, 2018.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Office of the Secretary of the State disclosed the following 8 findings and recommendations, of which 5 have been repeated from the previous audit:

Accounts Receivable Recordkeeping

Background: In accordance with Sections 33-920, 33-1210, 34-38g, 34-275a, 34-429 and 34-531 of the General Statutes, out of state business corporations, nonstock corporations, limited partnerships, limited liability companies, limited liability partnerships, and statutory trusts may not transact business in Connecticut without filing with the Secretary of the State.

Sections 33-921, 33-1211, 34-38*l*, 34-275a, 34-430 and 34-539 of the General Statutes allow the office to levy fees and penalties against out-of-state entities for each month they did not comply with filing requirements. The office's investigations unit, in conjunction with the Office of the Attorney General, assesses and tracks the total amount of fees and penalties due. The Office of the Secretary of the State issues demand letters to foreign entities that have fees and penalties assessed against them.

Criteria: The State Accounting Manual requires that accounts receivable records should be accurate, complete, and maintained in a manner to indicate how long they were outstanding.

State agencies are required to submit an accounts receivable report to the Office of the State Comptroller at the end of each fiscal year, which includes the cumulative outstanding balance of accounts receivable as of June 30 of the reported fiscal year.

Condition: Our review found that the office could not provide a comprehensive listing of all outstanding accounts receivable in the form required by the State Accounting Manual.

Our test of 10 accounts receivable balances, totaling $91,553 as of June 30, 2018, disclosed the following issues:

- In 7 out of 10 cases reviewed, the office did not make sufficient collection efforts on $49,380 in receivable balances. The last documented collection efforts ranged 4 months to 3 years from the time of our review.
- In 9 out of 10 cases reviewed, the office sent demand letters, for cases with assessed values totaling $76,875, 6 to 14 months after the entities filed with the office.

As in the prior audit report, we continue to note that the office could not provide an aging schedule, because the office still maintains its accounts receivable data in 2 separate systems. Neither system can produce an aging schedule. Our analysis found that approximately 73% of the total receivable balance is more than 2 years old, with some balances dating back to 1995. Furthermore, the office does not have a process to estimate uncollectible amounts or write off stale balances.

The office reported total receivables of $2,199,680 to the Comptroller as of June 30, 2018. This amount only included receivables originating in the 2017-2018 fiscal year, rather than a cumulative balance of outstanding accounts receivable. This total did not account for amounts received prior to June 30, 2018, or outstanding balances created prior to July 1, 2017.

Context: The office's accounts receivable databases included 417 cases with a total value of $3,377,036.

Effect: The accounts receivable records were not accurate, complete, or maintained in a manner to reflect how long receivables were outstanding. Additionally, there is a potential loss of revenue to the state when the office does not promptly follow up on past due amounts.

Our analysis found that the office likely underreported its receivables to the Comptroller by $1,177,356. However, we do not know the actual value of receivables, because the office has not identified uncollectible amounts. Inaccuracies in reporting to the Comptroller resulted in misstatements in the state's financial statements.

Cause: The office maintains 2 databases that do not adequately track receivable balances.

Prior Audit Finding: The finding has been reported in the last 3 audit reports covering the fiscal years ended June 30, 2010 through 2016.

Recommendation: The Office of the Secretary of the State should improve its accounts receivable recordkeeping to ensure that records are accurate, complete, and maintained in a manner to indicate how long receivables were outstanding.

The office should periodically evaluate outstanding accounts and should write-off accounts deemed uncollectable to enhance the accuracy of reporting. (See Recommendation 1.)

Agency Response: "The agency has implemented a new performance standard to issue demand letters to noncompliant businesses within 30 days. The agency has also prioritized resolving the backlog of demand letters resulting in action for hundreds of accounts. We would also like to note three important facts. First, the investigative work of the agency, in collaboration with the Attorney General, has produced increasing revenues and amounted to $2.2 million in FY 17/18. As the number of violations that are uncovered increases, a larger workload is created. This could be better maximized with a dedicated staff, which we currently do not have. Second, although the agency is committed to a new 30-day standard, there is no required statutory timeline. Finally, Connecticut's foreign investigation process is unique in that it resolves each infraction with a custom resolution. Other states have a one-size-fits-all approach consisting of predetermined fines. This practice would probably generate less revenue, but it would improve the timeliness of resolving cases, should such a policy be the will of the legislature.

CONCORD serves as the case management system but the agency also has records in an old Lotus program that operates on Windows XP. To bring resolution to the matter the agency will investigate the data contained in the antiquated Lotus program and consult the Attorney General regarding how to conclude any unresolved infractions. Resolving this will reduce the 400 cases cited by the auditor by about half."

Receipts and Unearned Revenue

Background: The Office of the Secretary of the State is the keeper of the state's public records. The office collects most of its revenue from various business filings. The financial unit within the Management and Support Services Division uses an in-house cash receipts software called FinSys to record receipts. The financial unit enters the receipts into CONCORD, the office's commercial recording system. They are subsequently entered into Core-CT, the state's official accounting system.

The office often receives funds in advance from businesses that file on behalf of multiple companies, known as frequent filers. The office refers to these advance payments as customer account balances, which also consist of rejected filings and other filer overpayments. The office considers these customer account balances unearned revenue.

Criteria: Section 4-32 of the General Statutes requires that any state agency receiving any money or revenue for the state amounting to more than $500 shall deposit such receipts in depositories designated by the Treasurer within 24 hours of receipt. The agency may hold total daily receipts of less than $500 until the total receipts to date amount to $500, but not for more than 7 calendar days.

The State Accounting Manual provides that each agency should process receipts by the end of the day it receives the deposit information through Core-CT. The manual also states that each agency is responsible to reconcile its records with Core-CT.

Section 3-99a(c) of the General Statutes establishes a 1-year limit for refunds of any overpayments related to filing fees. Business filing fees the office received with a positive customer account balance should be considered earned revenue a year after receipt. Proper internal control also dictates that the office should perform a periodic review of older customer balances without recent activity to determine if a resolution is needed.

State agencies are required to submit an annual report of unearned revenue to the Comptroller.

Condition: Our review of 30 deposits, totaling $424,748, disclosed the following issues:

- In 8 instances, the Business Services Division held $66,475 in receipts up to 11 days before submitting the checks to the financial unit for deposit.

- In 10 instances, the financial unit posted $232,037 in deposits to Core-CT 1 to 6 days late. Further investigation revealed that the office did not perform reconciliations of its revenue between FinSys and Core-CT. Our reconciliation of the June 2018 deposits showed that FinSys receipts were approximately $4,000 lower than Core-CT.

We reviewed 25 customer account balances totaling $206,874 and found that 9, totaling $34,571, were 8 to 25 years old with no recent activity. In addition, prior audits disclosed data entry errors significantly affected customer account balances. Therefore, the accuracy of the amounts of unearned revenue remain in question.

The office reported $9,390,245 in unearned revenue to the Comptroller as of June 30, 2018, the majority of which are likely over a year old and should no longer be considered unearned revenue.

Context: The office collected total revenue of $30,659,695 and $31,532,485 during the fiscal years ended June 30, 2017 and 2018, respectively.

Effect: Current internal controls over revenues and other receipts do not provide management with reasonable assurance that the office is properly accounting for all receipts. Additionally, late postings could cause inconsistencies between Core-CT and FinSys.

The reporting of deferred revenue appears to be overstated, because the balance likely includes amounts no longer eligible for refund.

Cause: The late deposits are a result of the office's process of reviewing the filings prior to submitting the receipts to the finance unit for deposit. This may result in the depositing of checks significantly later than the required 24-hour period.

Management has not established internal controls that require regular reconciliations between FinSys and Core-CT.

The office does not have a separate account to track and report unearned revenue that is less than a year old. Also, the current recordkeeping system does not provide the aging of balances, which are required to determine whether revenues are available for refund. It appears that the office did not periodically review customer account balances as part of its procedures.

Prior Audit Finding: The findings related to the lack of reconciliations between FinSys and Core-CT and the improper reporting of unearned revenue have been reported in the last 6 audit reports covering fiscal years ended June 30, 2002 through 2016.

Recommendation: The Office of the Secretary of the State should strengthen internal controls over receipts and should implement procedures to comply with the General Statutes.

The office should also seek guidance from the Office of Policy and Management concerning stale customer account balances. (See Recommendation 2.)

Agency Response: "The Office will re-prioritize timely depositing of all checks. As the auditor correctly noted, this issue is connected to the issue of account balances (e.g., prioritizing check deposits will lead to an increase in account balances). We also agree that all account balances in excess of one year should be eliminated and will work with OPM and other appropriate agencies to that end.

The agency agrees that the stale customer account balances that have been inactive for one year should no longer be considered unearned income and welcomes the opportunity to work with OPM on a resolution. The statute requires that checks be deposited within 24 hours, even if the filing is incomplete or in error, and so, some funds will always be categorized as unearned income. However, more than 90% of these funds have not been accessed in more than two years, and likely never will be. Of the $9 million, more than $8.4 million has been inactive for more than two years, more than $7 million has been inactive for more than six years, and $5 million hasn't had any activity for more than a decade. In our expert opinion, that level of inactivity means that the associated business no longer exist and that it is most efficient to no longer categorize these accounts as unearned income.

Furthermore, an internal investigation revealed a problem of incorrect inputs leading to incorrect outcomes. Specifically, we estimate that 30% of the balances greater than $1,000 were actually the result of typographical errors. This has been resolved for many years by amending the financial reconciliation process so that future typographical errors are avoided, and we are confident that typographical errors are no longer causing incorrect account balances.

Finally, we are pursuing the implementation of e-check payments which would improve timely deposits."

Property Control Reporting

Criteria: The State Property Control Manual requires the Office of the Secretary of State to submit a property control report (CO-59) annually to the Office of the State Comptroller. The CO-59 instructions require that the report balances agree with the balances in Core-CT. The office should promptly remove any property that is no longer in service from Core-CT records.

Condition: We noted the following exceptions on the CO-59 property control report for the fiscal year ended June 30, 2018:

- The office overstated its capital equipment balance by $439,642.
- The office overstated its licensed software balance by $35,785.
- The office understated its capitalized software balance by $19,093.

Context: The office reported a total of $2,023,366 in personal property on its June 30, 2018 CO-59 property control report, consisting of $1,183,862 in equipment, $284,297 in licensed software, and $555,207 in inventory.

Effect: The office submitted inaccurate annual inventory reports to the Comptroller. The office submitted a revised CO-59 report to the Comptroller in April 2019 as a result of our review.

Cause: It appears that there was a lack of oversight regarding the preparation of the CO-59 report, which resulted in errors in the compilation of the report.

Prior Audit Finding: The finding has been reported in the last 3 audit reports covering the fiscal years ended June 30, 2010 through 2016.

Recommendation: The Office of the Secretary of State should abide by the State Property Control Manual policies and procedures and strengthen internal controls to ensure that the balances the office discloses on its property control reports are accurate and complete. (See Recommendation 3.)

Agency Response: "During the audit period, the agency went through a reorganization process which led to staff turnover and internal transitions to new supervisors. We believe this may have contributed to this problem and are now focusing on cross training the staff. The agency is also focusing on additional training and better oversight in our property control."

Ineffective Controls over Inventory

Criteria: The Office of the State Comptroller State Property Control Manual sets forth the standards and procedures for recording and maintaining inventory records. The manual states that a complete physical inventory of all property must be taken by the end of each fiscal year to ensure that property control records accurately reflect the actual inventory on hand. Agencies should retain evidence that they completed their annual inventory. The manual also provides guidelines on how to account for surplus and scrap equipment. Sound business practices dictate that agencies establish procedures for the physical disposition of such equipment and its timely removal from inventory records.

Condition: Our review found that the Office of the Secretary of the State has not conducted a physical inventory of all property since 2016. In addition, our physical inspection of 20 items, with a total cost of $70,166, disclosed numerous exceptions indicating that the office did not properly maintain its inventory records. We noted that 9 out of 20 items could not be physically located. The office disposed of 5 items, was missing 3 items, and entered one item twice in Core-CT. Our inspection also found 5 out of 20 items in a location other than where the office indicated on its inventory records. In one instance, the office incorrectly coded a $2,900 controllable equipment purchase to the capital equipment profile in Core-CT.

In separate testing during a physical inspection, we selected 5 items to trace back to inventory records and found that the office did not record 2 of the 5 items on its inventory records. We found 2 items in a different location than the inventory records, and one item's serial number did not match the inventory records.

Effect: The office's property inventory records were not accurate in Core-CT. Errors in inventory records could result in undetected losses. In addition, inaccurate inventory records impact the office's annual property control report to the Comptroller.

The missing inventory items appear to overstate the equipment balance by $19,977.

Cause: Staff turnover within the office resulted in recordkeeping deficiencies.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Office of the Secretary of the State should develop and maintain property records in accordance with the State Property Control Manual. The office should perform a complete physical inventory with supporting documentation, and implement effective controls over the recordkeeping of scrapped equipment. (See Recommendation 4.)

Agency Response: "We would like to offer clarification on some of the specifics, beginning with the statement that agency has not conducted an inventory since 2016. The inventory process was performed and was done in a timely way. Unfortunately, an employee did not upload the information in a timely way, making it appear as though the inventory was not completed. Corrective action has been taken and we are confident that this problem will not be repeated.

In recent years the agency staff has been reduced considerably and as a result some of the departments have disassembled unneeded workstations and rearranged layouts. These changes, in addition to the general move towards mobile equipment, has been a challenge to record keeping. With that in mind, we would simply add that the errors cited are largely reporting errors and not missing items."

Merchandise for Sale

Background: The Office of the Secretary of the State sells and ships various publications (e.g., Connecticut General Statutes, the Supplement to the General Statutes, Connecticut Public and Special Acts and the Connecticut Register and Manual) to state agencies and the public. The public can order a copy of any of these publications via phone, mail, fax, or in person. The office utilizes an order form to assure proper processing and retains these forms in accordance with state record retention policies.

Criteria: The State Property Control Manual establishes guidelines for maintaining an inventory of merchandise for sale. This includes the inventory format, procedures for conducting an annual physical inventory, and the preparation of an annual inventory report.

Section 3-90-2 of the State Regulations provides that the office may sell copies of publications through an agent engaged in retail sale of books, and such copies sold shall be discounted 40% from the prices specified in Section 3-90 of the General Statutes; However, no discount may be offered for orders of fewer than 5 copies.

Condition: The inventory records of merchandise for sale were inaccurate and incomplete. We reviewed 20 sales, totaling $25,408. Our review revealed that the office did not have supporting documentation available for 15 sales, totaling $24,680. Our review of the remaining 5 sales, totaling $728, disclosed 4 instances in which the office did not remove the items from its inventory records. Additionally, for one of the sales reviewed, the office gave a discount to a customer who did not qualify for one.

We reviewed inventory counts for 5 different publications for sale, totaling 357 items per the office's records, and found that the inventory counts were not accurate for all 5 publications. The actual count totaled 437 items.

Our review also found that the office did not perform adequate physical inventories of merchandise for sale during the audited period.

Effect: The office did not comply with the State Property Control Manual's merchandise inventory requirements. This could result in undetected losses.

Cause: Lack of managerial oversight over the tracking of merchandise for sale inventory contributed to the findings. Additionally, the office indicated that an employee improperly disposed of records without approval.

Prior Audit Finding: The finding has been reported in the last 2 audit reports covering the fiscal years ended June 30, 2013 through 2016.

Recommendation: The Office of the Secretary of State should ensure that inventory records of merchandise for sale are accurate, complete and in compliance with the State Property Control Manual. (See Recommendation 5.)

Agency Response: "The agency seeks to clarify some of the concerns detailed in this section. There are three actions here that are related to employee error. First, the administration of a discount to an ineligible customer. The employee mistakenly thought that because the purchaser was a publisher that they were entitled to the discount, but in fact the purchase did not meet the minimum number of books. She has been retrained. Second, the employee charged with inventory of publications did not specifically count each specific item as required. The employee has been retrained and we do not expect this problem to occur again."

Software Inventory

Criteria: Section 4-36 of the General Statutes requires each state agency to maintain property inventory records in the manner prescribed by the Office of the State Comptroller. The State Property Control Manual provides further guidance, establishing agency responsibilities for accounting and reporting of state assets, including maintaining a software control system with minimum requirements.

Condition: The office's software inventory does not contain the basic requirements prescribed by the Comptroller, including the software's description, version, manufacturer, serial number, acquisition type, installation date and location.

Effect: Deficiencies in the controls over software inventory reduce the office's ability to safeguard and accurately report state assets.

Cause: The office did not follow requirements established by the State Property Control Manual.

Prior Audit Finding: The finding has been reported in the last 4 audit reports covering the fiscal years ended June 30, 2008 through 2016.

Recommendation: The Office of the Secretary of the State should accurately report software amounts and ensure that its software inventory records conform to Office of the State Comptroller requirements. (See Recommendation 6.)

Agency Response: "The Office of the Secretary of the State agrees with the audit findings. We have made changes to track software inventory amounts going forward and will check the requirements set forth by the Office of the State Comptroller to insure we are in compliance."

Purchasing Card Deficiencies

Background: Purchasing cards (P-cards) are distributed to state agencies under a program cosponsored by the Department of Administrative Services (DAS) and the Office of the State Comptroller and may be used for approved purchases as prescribed by individual agencies.

Since July 1, 2011, state agencies must make all purchases under $1,000 using a P-card. Agencies use the P-cards in conjunction with current state contracts and agency purchasing policies.

Criteria: The Department of Administrative Services established best practices for the administration of P-cards under the Agency Purchasing Card Coordination Manual and Purchasing Card Cardholder Work Rules. DAS requires monthly tracking of purchases on a P-card log so agencies can monitor spending limits and reconcile purchasing activity to the monthly card statements. The cardholder and immediate supervisor must review and approve the monthly logs.

The Office of the Secretary of the State has additional P-card procedures that require the submission of the supervisor-approved P-card log sheet and original receipts to Management Support Services by the 15th of each month.

Under the State of Connecticut Credit Card Use Policy, agencies and individual cardholders and users are responsible for maintaining adequate documentation supporting all P-card purchases. Documentation must support the business purpose of all transactions and include original receipts or vendor invoices. Agencies must retain such documentation in accordance with the State Librarian's Records Retention Policy.

Condition: Our review of 4 monthly P-card statements, totaling $107,797, disclosed the following:

- For all 4 monthly P-card statements, we noted discrepancies, totaling $27,175, between the bank statements and log records that the office did not identify during the reconciliation process. We note that the office provided supporting documentation after our inquiry. However, the office either misfiled the records or omitted them on the P-card log sheets.

- In 13 instances, approvers signed off on P-card logs between 1 and 15 days late. In one instance, a P-card log lacked supervisory approval.

- The office was unable to provide supporting documentation for purchases totaling $24,702 from one monthly statement totaling $27,070.

Effect: Ineffective internal controls and the lack of monitoring of P-cards increases the risk of fraud, waste, and abuse.

Cause: The office has not effectively implemented controls over P-cards.

The office indicated that an employee improperly disposed of records without approval.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Office of the Secretary of the State should strengthen controls over purchasing card transactions to ensure compliance with established procedures. (See Recommendation 7.)

Agency Response: "While unfortunate, the lack of documentation for one monthly statement of $27,070 was an isolated incident and thankfully limited in scope. Although the agency lacked original invoices and requisition, we were able to recreate the record of expenditures by using the detailed bank statements. The state policy is to maximize the use of P-cards and most of those expenses were considered routine operations and not difficult to reconstruct."

Inadequate Controls over Payroll and Personnel

Background: Core-CT is the state's integrated human resources, payroll, and financial system. The system maintains employee time and labor records, and its job aids illustrate how to enroll new hires in the system.

Criteria: **Holiday Coding on Non-Holidays**
Proper internal controls provide assurance that employee timesheets are accurately completed, properly approved, correctly processed, and adequately monitored.

Compensatory Time Plans
Bargaining unit contracts and state statutes govern compensatory time eligibility and expiration periods. Core-CT has established specific

plans to enroll new employees to ensure compensatory time is earned and used in compliance with bargaining unit and statutory requirements.

Condition:

Holiday Coding on Non-Holidays
We processed a Core-CT exceptions report for the period covering July 1, 2016 through June 30, 2018, and found 8 instances in which 4 employees erroneously coded 60.5 hours of paid holiday time on a non-holiday.

Compensatory Time Plans
We found 18 employees were enrolled in the wrong compensatory plan.

Effect:

Holiday Coding on Non-Holidays
Employees could potentially take time off without charging their leave balances when improper use of time reporting codes goes undetected.

Compensatory Time Plans
Employees could earn compensatory time that they are not eligible for if they are enrolled in an erroneous compensatory time plan in Core-CT. Employees may also use compensatory time that they are not entitled to if the hours earned should have expired per bargaining unit contracts and state statutes.

Cause: Inadequate supervisory review of employee timesheets and oversight during the hiring process contributed to the above conditions.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Office of the Secretary of the State should implement controls to appropriately use the state holiday time reporting code and strengthen internal controls to ensure employees are enrolled in the correct compensatory time plan. Additionally, supervisors and payroll personnel should be more diligent when reviewing and approving employee time and attendance records. (See Recommendation 8.)

Agency Response: "The issue of holiday coding on non-holidays and approval of timesheets has been addressed with all supervisors. Furthermore, going forward Human Resources/Payroll will perform a monthly audit by running the "employee processed time by TRC" category report. This will capture any errors that supervisors approved on an employee's timesheet.

Compensatory time plans were established in error under the supervision of the previous HR representative in 2003-2005. Since the time of this audit the current Principal HR Specialist has reviewed and corrected all agency employees' compensatory plans. Going forward, eligible employees will be enrolled in the correct leave plans by using the time and labor job aids."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Office of the Secretary of the State contained 8 recommendations. Three have been implemented or otherwise resolved and 5 have been repeated or restated with modifications during the current audit. The following is a summary of the action taken on the prior recommendations.

- The Office of the Secretary of State should abide by the policies and procedures within the State Property Control Manual and strengthen controls to ensure that balances presented on the CO-59 reports are accurate and complete. **We found that this condition has not been resolved and we repeat the recommendation in a modified form. (See Recommendation 3.)**

- The Office of the Secretary of the State should report software amounts accurately and be sure its software inventory records conform to the requirements set forth by the State Comptroller. **We found that this condition has not been resolved and we repeat the recommendation in a modified form. (See Recommendation 6.)**

- The Office of the Secretary of State should improve management oversight to ensure that inventory records of merchandise for sale are accurate and complete. **We found that this condition has not been resolved and we repeat the recommendation in a modified form. (See Recommendation 5.)**

- The Office of the Secretary of the State should improve management oversight by monitoring the use of overtime and periodically reviewing for the presence of preapproved employee request forms. **This condition has been resolved and the recommendation is not repeated.**

- The Office of the Secretary of State should take steps to ensure compliance with Section 5-247-11 of the State Regulations by monitoring sick leave usage on a biweekly basis and obtaining medical certificates as applicable. **This condition has been resolved and the recommendation is not repeated.**

- The Office of the Secretary of the State should improve internal controls over the petty cash fund by preparing monthly reconciliations of the check register to the checking account bank statements. **This condition has been resolved and the recommendation is not repeated.**

- The Office of the Secretary of the State should improve accounts receivable record keeping to ensure that records are accurate, complete, and maintained in a manner to indicate length of time outstanding.

The office should periodically evaluate uncollectible accounts and should write-off uncollectable accounts to enhance the accuracy of reporting.

The office should consider whether the task of accounts receivable record keeping should be the responsibility of the accounting unit rather than the investigations unit. **We found that this condition has not been resolved and we repeat the recommendation in a modified form. (See Recommendation 1.)**

- The Office of the Secretary of the State should strengthen internal controls over receipts and should implement procedures to comply with the General Statutes. **We found that this condition has not been resolved and we repeat the recommendation in a modified form. (See Recommendation 2.)**

Current Audit Recommendations:

1. **The Office of the Secretary of the State should improve its accounts receivable recordkeeping to ensure that records are accurate, complete, and maintained in a manner to indicate how long receivables were outstanding.**

   The office should periodically evaluate outstanding accounts and should write-off accounts deemed uncollectable to enhance the accuracy of reporting.

   Comment:

   Our review noted inadequacies in the accounting and reporting of accounts receivable related to fees imposed on unregistered out-of-state businesses.

2. **The Office of the Secretary of the State should strengthen internal controls over receipts and should implement procedures to comply with the General Statutes.**

   The office should also seek guidance from the Office of Policy and Management concerning stale customer account balances.

   Comment:

   Our review noted untimely deposit and posting of receipts, and a lack of reconciliations between the cash receipts journal and the state's accounting system. Our review also found deficiencies in the accounting and reporting of unearned revenue.

3. **The Office of the Secretary of State should abide by the State Property Control Manual policies and procedures and strengthen internal controls to ensure that the balances the office discloses on its property control reports are accurate and complete.**

   Comment:

   Our review disclosed errors in the compilation of the office's CO-59 property control report.

4. **The Office of the Secretary of the State should develop and maintain property records in accordance with the State Property Control Manual. The office should perform a complete physical inventory with supporting documentation, and implement effective controls over the recordkeeping of scrapped equipment.**

   Comment:

   Our review disclosed numerous exceptions indicating that the office improperly maintained its inventory records.

5. **The Office of the Secretary of State should ensure that inventory records of merchandise for sale are accurate, complete and in compliance with the State Property Control Manual.**

   Comment:

   The inventory records of merchandise for sale were inaccurate and incomplete. Our review also found that the office did not perform adequate physical inventories of merchandise for sale during the audited period.

6. **The Office of the Secretary of the State should accurately report software inventory amounts and ensure that its software inventory records conform to Office of the State Comptroller requirements.**

   Comment:

   The office's software inventory does not contain the basic requirements prescribed by the Comptroller, including the software's description, version, manufacturer, serial number, acquisition type, installation date and location.

7. **The Office of the Secretary of the State should strengthen controls over purchasing card transactions to ensure compliance with established procedures.**

   Comment:

   Our review of purchasing card transactions disclosed deficiencies in the reconciliation process and missing documentation.

8. **The Office of the Secretary of the State should implement controls to appropriately use the state holiday time reporting code and strengthen internal controls to ensure employees are enrolled in the correct compensatory time plan. Additionally, supervisors and payroll personnel should be more diligent when reviewing and approving employee time and attendance records.**

   Comment:

   We processed a Core-CT exceptions report for the period covering July 1, 2016 through June 30, 2018, and found 8 instances in which 4 employees erroneously coded 60.5 hours of paid holiday time on a non-holiday. We also found that 18 employees were enrolled in the wrong compensatory plan.

ACKNOWLEDGMENTS

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Thomas Caruso
Jaimie Hubeny
David Tarallo

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Office of the Secretary of the State during the course of our examination

Jaimie Hubeny
Auditor II

Approved:

John C. Geragosian
State Auditor

Robert J. Kane
State Auditor